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FOR IMMEDIATE RELEASE

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Treasurer's Office Reports to Board of Finance on State Refundings

More than $72 million in taxpayer dollars saved

Carson City—The State Treasurer's Office today provided the Nevada Board of Finance with a requested report on the refunding of bonds and the associated savings as a result of refundings over the past two calendar years.

Deputy Treasurer for Debt Management Lori Chatwood informed the Board that refundings in calendar years 2012 and 2013 produced gross savings of more than $72 million in taxpayer dollars.

The full report to the Board follows:

TO: **Board of Finance (Board) Members**

FROM: **Lori Chatwood, Deputy Treasurer of Debt Management**

SUBJECT: **Report on Refundings Issued in 2012-2013**

DATE: **January 2, 2014**

Agenda Item #3

Receive report on refunding bond issues and their associated savings for calendar years 2012 and 2013.

BACKGROUND:

At the November 12, 2013 Board of Finance meeting, the Board requested a report on the number of refundings processed by the State Treasurer's Office and the associated savings with these refundings.

I am happy to report to the Board that over the past two calendar years, these refundings have produced gross savings of more than $72 million in taxpayer dollars by assisting state and local government agencies through this process. The savings can be primarily attributed to four main factors:

1) The issuance of Nevada's Unemployment Insurance Revenue Bonds in order to pay off the State's federal advance, which saved Nevada businesses and the State $16 million in gross savings and $24 million on a present value basis.
2) An investor outreach program initiated by the Treasurer's Office that has greatly enhanced the State's ability to reach out to a larger pool of possible investors.
3) Taking advantage of extremely low yield rates by continuously monitoring market opportunities.
4) Requesting and receiving prior approval by the Board to explore possible refunding candidates for the purpose of facilitating beneficial savings.

I would also call the Board's attention to the fact that these refundings have allowed the Treasurer's Office to restructure the State's debt portfolio, the end result being an additional $60 million of debt affordability being added to the 2013-2015 Biennial Budget, as well as additional debt affordability in successive biennial budgets.

In both 2012 and 2013, the Treasurer's Office approached the Board on a number of occasions to consider and authorize the refunding of bonds and other debt sold by the State, either for State projects or on behalf of local governments. The attached "Summary of Savings Achieved through Refundings" report summarizes each refunding sold by the Treasurer's Office the past two calendar years and the associated savings, both on a gross (or nominal) dollar basis, and on a present value (PV) basis, in which future savings are discounted to today's dollars. In CY 2013, the Treasurer's Office sold more than $1 billion of refunding issues, which produced gross savings of more than $55.5 million and PV savings of $57 million. A large portion of these savings are attributable to the Unemployment Insurance Revenue Bonds sold in October 2013; however, even excluding this one issuance, the remaining refundings generated $39.4 million in gross taxpayer dollar savings for the State and local governments who used the Municipal Bond Bank (MBB) and Permanent School Fund Guarantee (PSFG) programs.

In CY 2012, the Treasurer's Office sold 10 refunding series with a total par of over $214 million. Gross savings exceeded $16.7 million and PV savings were approximately $15 million. These refundings provided the State and local jurisdictions with enhanced savings to pay for capital projects or, in many cases, to operate existing programs.

The Treasurer's Office was able to achieve these savings through a near-continuous monitoring of savings in the markets for both current and advance refundings. Securing the prior authorization of the Board for even marginal refunding candidates—a new approach—enabled the Treasurer's Office to be more nimble in timing our execution of transactions, which is important especially during periods of market volatility. The State was thus better able to take advantage of historically low interest rates, which were largely engineered by the Federal Reserve.

For all but three series, our refundings were sold prior to May 2013, when the yield on the 10-year US Treasury began to shoot up from a prior range of 1.50-2.00% to as high as 2.95% in September 2013. This resulted in extremely low rates for these bond sales, such as a True Interest Cost (TIC) for the five-year Unemployment Insurance Bonds of less than 1% and even 1.33% for the seven-year 2013E taxable series.

Aside from the savings generated by these actions, there were several aspects to these refundings which resulted in positive developments for the State's bonding program. First and foremost has been a lowering of the market penalty for Nevada paper that began with the financial crisis of 2008. Despite maintaining a "AA" credit rating through one of the nation's worst financial crises, the State, as well as all Nevada local governments, were penalized by Nevada's dire economics and charged a premium in the capital markets. Nevada's "spread" or premium over the MMD scale, an index corresponding to generic AAA-rated muni bonds, widened significantly as many investors who read headlines about the state's unemployment and foreclosure rate became leery of holding Nevada paper. To counteract the negative headlines, the Treasurer's Office embarked upon an ambitious investor outreach program in 2011. As a result, the State has seen this "Nevada premium" decline and has also expanded the pool of institutional investors interested in purchasing the State's debt, which is critical in lowering spreads for future bond issuances. The State's recent sales have been well received by investors even when we've gone to market with an aggressive initial scale. The State's spreads to benchmark rates and to bonds of other similarly rated states are the lowest since the financial crisis of 2008. Further, on competitive sales, Nevada has frequently seen more than a dozen bidders compared to past sales which may have included six or less.

Looking forward, the Board will see requests for a number of "new money" issuances this calendar year, including a new General Obligation Bond series, Highway Revenue Bonds, and bonds for improvements to higher education facilities. While the expectation is that bond yields will continue to rise in 2014 and beyond, should rates unexpectedly fall, the Treasurer's Office will continue to vigilantly monitor our debt portfolio for possible advance refunding candidates.

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